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Attorney for the Commission Staff

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE COMMISSION'S	)	
INQUIRY INTO IDAHO POWER COMPANY'S	)	CASE NO. IPC-E-14-17
FIXED COST ADJUSTMENT MECHANISM.	)	
	)	COMMENTS OF THE
	)	COMMISSION STAFF
	)	

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The Staff of the Idaho Public Utilities Commission comments as follows on the Settlement Stipulation and Motion to Approve Settlement Stipulation filed in this case. For the reasons discussed below, Staff believes the proposed settlement is reasonable and in the public interest and recommends that the Commission grant the Motion and approve the Settlement Stipulation.

### BACKGROUND

In Idaho Power Company's last Fixed Cost Adjustment (FCA) case, Case No. IPC-E-14-03, Staff recommended that the Commission reevaluate the FCA mechanism for future application because the mechanism may be flawed. On July 1, 2014, the Commission opened this docket to allow Commission Staff, the Company, and other interested persons to evaluate the FCA mechanism and determine whether it effectively removes the Company's financial disincentive to aggressively pursue energy efficiency programs. The Commission set an intervention deadline and directed Staff to convene an informal prehearing conference after the opportunity for intervention expired. *See* Order No. 33068. The Idaho Conservation League

(ICL), Snake River Alliance (SRA), and Industrial Customers of Idaho Power (ICIP) then intervened in the case, and the Parties met to discuss and potentially settle the FCA issues.

On March 26, 2015, Idaho Power filed the Settlement Stipulation and moved that it be approved by the Commission. Staff, the Company, ICL, and SRA (the Parties) signed the Settlement Stipulation. As the Settlement Stipulation does not directly affect ICIP, ICIP declined to sign the agreement and advised the other Parties that ICIP will not support or oppose it before the Commission.

In summary, the Settlement Stipulation contains the following provisions related to the FCA:

1. Weather Normalization. Idaho Power will modify the quantification of the annual FCA deferral by replacing weather-normalized billed sales utilized in the current annual FCA determination with actual billed sales. The modification will occur with the determination of the year-end 2015 FCA deferral, impacting rates effective June 1, 2016.

2. Rate Adjustment Cap. In Order No. 30267, the Commission approved a discretionary rate adjustment cap for annual FCA-related rate changes as follows: “The FCA mechanism. . . incorporates a 3% cap on annual increases with carryover of unrecovered deferred costs to subsequent years.” Order No. 30267 at 13. The Company currently calculates the 3% cap by dividing the Proposed FCA Deferral Change by the Forecasted Base Rate Revenue.<sup>1</sup> The Parties ask the Commission to clarify that this method of determining the 3% cap is appropriate.

3. Fixed Cost per Energy (FCE) and Fixed Cost per Customer (FCC). The Parties acknowledge that Staff has concerns about the calculation of the FCE and FCC, but that these issues are more effectively addressed when base rates are reset.

4. Rate Design. The Parties agree that without the FCA, the current rate design causes a financial disincentive for the Company to pursue all cost-effective demand-side management. The Parties thus agree to consider, at a later time, modified rate design for residential and small general service customers. This may include, but is not limited to, reduced energy charges, increased monthly service charges, and the introduction of demand charges for these rate classes.

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<sup>1</sup> Forecast reflects currently-approved base rates applied to forecasted usage for the subsequent June 1 through May 31 FCA rate effective year.

## STAFF ANALYSIS

The intervenors, Staff, and Company held four settlement conferences to discuss FCA issues.<sup>2</sup> Participants discussed the history of the FCA mechanism and exchanged information to more accurately evaluate how alternative approaches might compare to the existing mechanism. Staff believes the resulting Settlement Stipulation, if approved, will improve the accuracy of the current FCA mechanism and strike a reasonable compromise on the four issues referenced above. Staff discusses each of these issues in turn.

### *1) Weather Normalization*

The current FCA deferral computation is based on weather-normalized energy sales, not actual energy sales. If sales increases are attributed to above-normal weather, sales are adjusted downward to reflect normal sales. As a result, the FCA does not acknowledge the fixed costs that the Company actually collected. Although the Commission originally designed the weather adjustment to be symmetrical, historically the Company significantly over collects its authorized fixed costs because sales are above-normal due to weather.

Because the Company collects about 90% of its fixed costs through energy rates, the Company recovers its fixed costs twice when weather contributes to above-normal energy sales. Specifically, the Company collects its fixed costs through base rates during the year, and again by adjusting energy sales downward in the FCA calculation.

To guard against the double recovery of fixed costs, the proposed settlement replaces the FCA deferral calculation's use of weather-normalized sales with actual sales. The proposed settlement thus ensures the FCA deferral balance accurately accounts for variations in fixed-cost recovery due to abnormal weather. This is particularly important given that the current adjustment for weather-normalized sales has historically added about \$25.5 million to the FCA deferral balance for residential customers, which is about 60% of residential customers' total FCA deferral balance since 2007.<sup>3</sup> Furthermore, last year's weather adjustment totaled \$15,840,756 for residential customers and \$253,804 for commercial customers, which is more

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<sup>2</sup> The Parties met on September 10, 2014, October 16, 2014, February 17, 2015, and March 11, 2015.

<sup>3</sup> This calculation utilizes a weighting of the 2008 and 2009 FCA since there were mid-year FCC/FCE changes. This does not include accrued interest or the impacts of revenue sharing.

than the deferral balance itself. Without the weather adjustment last year, the deferral balance for residential customers would have been a credit of approximately \$1,361,976.<sup>4</sup>

By replacing weather-normalized billed sales with actual billed sales, the deferral balance calculation will no longer ignore above-normal energy sales collected through base rates due to favorable weather conditions. Moreover, Staff believes the FCA mechanism will be more transparent because the Company will no longer use its weather-normalization model to calculate the deferral balance. This makes the mechanism easier for Parties to review each year, and reduces the possibility that the FCA deferral balance will reflect any error arising from the Company's weather-normalization model.

## *2) Rate Adjustment Cap*

In past FCA applications and supporting testimony, the Company has not clearly articulated how it calculates whether an annual increase exceeds the 3% discretionary rate-adjustment cap approved in Order No. 30267. However, according to the Company, it currently calculates the 3% cap by dividing the proposed change in the FCA deferral by the forecasted base rate revenue. The forecast reflects currently approved base rates applied to forecasted usage for next year, when the FCA rate will take effect (June 1 - May 31).

In Order No. 30267, the Commission approved a discretionary rate-adjustment cap for annual FCA-related rate changes as follows: "The FCA mechanism....incorporates a 3% cap on annual increases with carryover of unrecovered deferred costs to subsequent years." The Company has never exceeded its cap. But Staff still believes the calculation of the 3% cap on annual increases is ambiguous and could be calculated differently by various parties. Staff thus believes, and the proposed settlement provides, that the Commission should clarify that the Company's present approach for determining the 3% cap is reasonable.

## *3) FCC and FCE*

In Case No. IPC-E-14-03, Staff expressed concerns about how the Company calculates the FCE and FCC. Specifically, Staff is concerned that the Company calculates the FCC and FCE in a way that may exacerbate cross subsidies in cost-of-service. Because the Company's method of calculating the FCC and FCE may be inequitable, Staff believes it should be

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<sup>4</sup> This estimate excludes interest.

reevaluated to see if a more equitable method can be developed based on various cost-of-service studies. However, as specified in the proposed settlement, Staff agrees these issues can be more effectively addressed when base rates are reset.

#### *4) Rate Design*

The FCA is an imperfect mechanism designed to reduce the risk of fixed cost under recovery caused by inaccurate rate design. Because the current residential and small general service rate design recovers fixed costs almost exclusively through the energy charge, fixed cost recovery declines when energy sales decline for any reason, including demand side management (DSM). While fixed costs do not necessarily change with the level of energy consumption, recovery of those fixed costs does. This creates the financial disincentive for DSM.

One alternative to the current FCA mechanism is to modify residential and small general service rates to recover a larger portion of fixed costs through customer or demand charges so that fixed cost recovery is unaffected by changes in energy consumption. Consequently, while Staff believes the FCA modifications proposed in the Settlement Stipulation are reasonable at this time, the Settlement Stipulation also provides that the Parties will consider, at a later date, the possibility of modifying the current residential and small general service rate design. Staff supports consideration of potential rate design changes as a more permanent alternative to the FCA mechanism.

#### **STAFF RECOMMENDATION**

Staff recommends that the Commission accept the proposed Settlement as fair, just, and reasonable and in the public interest.

Respectfully submitted this 21<sup>st</sup> day of April 2015.



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Karl T. Klein  
Deputy Attorney General

Technical Staff: Matt Elam

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 21<sup>ST</sup> DAY OF APRIL 2015, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-14-17, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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